

**REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND KWAZULU-NATAL  
PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF UTHUNGULU DISTRICT MUNICIPALITY, FOR THE YEAR ENDED 30 JUNE 2007.**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the uThungulu District Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 70 to 104.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.

7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of financial statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by uThungulu District Municipality in this respect will be limited to reporting on non-compliance with the disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in the accounting policy note 1.

#### **Opinion**

10. In my opinion the financial statements present fairly, in all material respects, the financial position of uThungulu District Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy 1 and in the manner required by the MFMA.

#### **Emphasis of matter**

Without qualifying my audit opinion, I draw attention to the following matter:

#### **Investments**

11. Attention is drawn to note 10 of the financial statements. Investments, amounting to R8,424,476 were made and subsequently impaired in full in 2002, due to the fact that the investment became irrecoverable. Currently, the municipality is engaged in a process by which attempts are being made, through legal measures to recover these funds from the responsible persons. This matter has been on going since 2003 and it was noted as per Council Resolution No. UDMC 1081, approved by Council on 11 June 2003, the total investment is now considered to be irrecoverable.

#### **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibility in the audit of the financial statements:

#### **Matters of governance**

#### **Fraud prevention plan**

12. The municipality did not have a fraud prevention plan.



### Skills retention policy

13. No policy on skills retention and monitoring of staff was in place for the year under review.

### Material corrections to the financial statements submitted for audit

14. The financial statements, approved by the accounting officer and submitted for audit on 31 August 2007, have been significantly revised in respect of the following misstatements identified during the audit:
- Depreciation charges were overstated by R1,041,833 and the accumulated surplus was understated as the depreciation expense on the fixed asset register was not reconciled to the financial statements before being processed.
  - The fixed assets register was updated with asset additions of R610,525, disposals of R297,992 relating to the previous financial year, a difference of R822,648 between the financial statements and the fixed assets register and duplicated assets to the value of R9,696,598.

### Internal Control

15. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Emphasis of matter</b>					
Unauthorised investments	✓				
Other matters					
Fraud prevention plan	✓				
Skills retention policy	✓				

### Unaudited supplementary schedules

16. The supplementary information set out on pages 32 to 38 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

### OTHER REPORTING RESPONSIBILITIES

#### Reporting on performance information

17. I was engaged to audit the performance information.

#### Responsibilities of the accounting officer for the performance information

18. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality

in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Responsibility of the Auditor-General**

19. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and section 45 of the MSA.
20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

#### **Audit finding (performance information)**

##### **Non compliance with regulatory requirements**

22. The internal auditor's of uThungulu District Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

#### **APPRECIATION**

23. The assistance rendered by the staff of the uThungulu District Municipality during the audit is sincerely appreciated.

*Auditor-General*  
**Pietermaritzburg**

**7 December 2007**



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